

Message Text

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P 141704Z SEP 76
FM SECSTATE WASHDC
TO AMEMBASSY KUWAIT PRIORITY

UNCLAS STATE 227063

E.O. 11652:

TAGS: EFIN, KU

SUBJECT: REPLY TO KUWAITI FINANCE MINISTER ATEEQI REGARDING
IMF GOLD SALES/TRUST FUND

REF: KUWAIT 3153

1. LETTER FROM TREAS SEC SIMON TO MINISTER ATEEQI REPLY-
ING TO LATTER'S MESSAGE CONCERNING IMF GOLD SALE/TRUST
FUND BEING POUCHED FOR DELIVERY TO ATEEQI. TEXT FOLLOWS.

2. DEAR MR. MINISTER:

AMBASSADOR MAESTRONE HAS PASSED ON TO ME YOUR MESSAGE
CONCERNING KUWAIT'S VIEWS ON THE DIRECT TRANSFER TO
DEVELOPING COUNTRIES OF A PORTION OF THE PROCEEDS FROM
THE SALE OF IMF GOLD FOR THEIR BENEFIT. THE U.S. EXECU-
TIVE DIRECTOR HAS ALSO BROUGHT TO MY PERSONAL ATTENTION
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A STATEMENT OF YOUR POSITION ON THIS QUESTION CIRCULATED

TO THE IMF EXECUTIVE BOARD. I GREATLY APPRECIATE THE FRANK STATEMENT OF YOUR VIEWS. I BELIEVE IT USEFUL THAT I WRITE IN THE SAME FRANK VEIN TO EXPLAIN THE US POSITION AND TO RESPOND TO SOME OF THE CONCERNS YOU HAVE EXPRESSED.

THE UNITED STATES WAS NOT A PROPONENT OF THE DIRECT TRANSFER CONCEPT, WHICH INVOLVES A DEPARTURE FROM TRADITIONAL IMF PRINCIPLES AND PRACTICES THAT--HOWEVER LIMITED--IS UNFORTUNATE. WE AGREED TO SUCH AN ARRANGEMENT ONLY RELUCTANTLY. OUR AGREEMENT REFLECTED RECOGNITION OF THE NEED TO MEET THE CONCERNS OF SOME DEVELOPING COUNTRIES WHICH FACED SERIOUS FINANCING PROBLEMS IN THE PRESENT SITUATION BUT WHICH WOULD NOT BE ELIGIBLE TO RECEIVE TRUST FUND LOANS. BUT WE DID NOT HAVE IN MIND THE VERY BROAD LIST OF "DEVELOPING COUNTRIES" ELIGIBLE TO PARTICIPATE THAT WAS SUGGESTED FOLLOWING THE AUGUST 1975 MEETING OF THE INTERIM COMMITTEE. INDEED, THAT LIST WAS NEVER DISCUSSED NOR AGREED UPON BY THE INTERIM COMMITTEE.

THE INCLUSION IN THE LIST PROPOSED BY THE IMF STAFF OF RELATIVELY WEALTHY COUNTRIES WITH STRONG BALANCE OF PAYMENTS AND RESERVE POSITIONS IS OF PARTICULAR CONCERN, AND IN OUR VIEW WOULD BE INCONSISTENT WITH THE CENTRAL IMF TENET THAT ITS RESOURCES BE USED ONLY FOR COUNTRIES EXPERIENCING BALANCE OF PAYMENTS DIFFICULTIES. IT IS ALSO RELEVANT THAT EACH TRANSFER TO A COUNTRY IN A RELATIVELY STRONG POSITION WOULD REDUCE BY AN EQUAL AMOUNT THE FUNDS AVAILABLE THROUGH THE TRUST FUND FOR THE POOREST IMF MEMBER COUNTRIES AT A TIME WHEN THEIR BALANCE OF PAYMENTS FINANCING NEEDS ARE GREATEST.

I CERTAINLY APPRECIATE THE DIFFICULT POSITION IN WHICH YOU HAVE BEEN PLACED BY THE SUGGESTION THAT THERE BE A VERY BROAD LIST OF COUNTRIES ELIGIBLE TO RECEIVE THE PROFITS FROM THE SALE OF THIS IMF ASSET. IN THESE CIRCUMSTANCES, YOUR WILLINGNESS TO CONSIDER A CONTRIBUTION TO THE TRUST FUND IF KUWAIT WERE TO RECEIVE A DIRECT TRANSFER IS HIGHLY COMMENDABLE. AT THE SAME TIME, I

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MUST POINT OUT THAT THE UNITED STATES IS FACING STRONG OPPOSITION IN THE CONGRESS TO THE SALE OF IMF GOLD FOR THE BENEFIT OF DEVELOPING COUNTRIES AND THE TRUST FUND. SOME MEMBERS OF CONGRESS ARE SEEKING TO LIMIT THE ABILITY OF THE UNITED STATES TO VOTE FOR IMF GOLD SALES UNDER THE AMENDED ARTICLES, PARTICULARLY FOR THE BENEFIT OF DEVELOPING COUNTRIES. IN RESPONSE TO CONGRESSIONAL CONCERNS ON THIS MATTER, WE HAVE BEEN ENDEAVORING TO

EXPLAIN THE LEGAL POSITION, WHICH IS THAT THE GOLD BEING SOLD IS OWNED BY THE IMF AND NOT BY MEMBERS; AND THAT THE USE BEING MADE OF THE PROCEEDS OF THE GOLD SALES IS FULLY CONSISTENT WITH THE IMF'S PURPOSES. ADOPTION OF A BROAD LIST OF COUNTRIES ELIGIBLE TO PARTICIPATE IN THE DIRECT TRANSFER--INCLUDING COUNTRIES WITHOUT A BALANCE OF PAYMENTS NEED--WOULD NOT BE CONSISTENT WITH THIS APPROACH AND WOULD MAKE IT MORE DIFFICULT FOR US TO SECURE CONGRESSIONAL APPROVAL OF THE IMF AMENDMENT AND QUOTA INCREASE. AT THE LEAST, IT WOULD MAKE IT VERY DIFFICULT TO AVOID LEGISLATION THAT WOULD INHIBIT OUR ABILITY TO APPROVE GOLD SALES IN THE FUTURE.

I THEREFORE HOPE YOU WILL RECONSIDER KUWAIT'S POSITION ON THE DEFINITION OF THE LIST. IN THIS CONNECTION, I WOULD URGE YOU TO EXAMINE ANEW THE U.S. PROPOSAL IN THE EXECUTIVE BOARD TO LIMIT PARTICIPATION IN THE DIRECT TRANSFER TO COUNTRIES ELIGIBLE TO RECEIVE TRUST FUND LOANS AND TO THOSE WITH 1973 PER CAPITA INCOME BELOW SDR 1200 (OR PERHAPS SLIGHTLY HIGHER) AND WHOSE RESERVES AT THE END OF 1974 WERE LESS THAN 1974 IMPORTS. SUCH A FORMULA WOULD HELP TO ENSURE THAT THE IMF'S RESOURCES ARE DIRECTED TO COUNTRIES WITH A FINANCING NEED, WHILE AVOIDING THE APPEARANCE OF SINGLING OUT ANY PARTICULAR COUNTRY OR GROUP AS INELIGIBLE TO PARTICIPATE OR OF "PRESSURING" COUNTRIES TO CONTRIBUTE TO THE TRUST FUND.

IN CLOSING, LET ME STATE THAT I AM ACUTELY AWARE OF THE RESPONSIBILITIES OF THE INDUSTRIALIZED COUNTRIES TO ASSIST THE DEVELOPMENT EFFORTS OF THE LESS DEVELOPED COUNTRIES. OUR POSITION ON THE "THIRD WINDOW" DID NOT REFLECT ANY DIMINUTION OF OUR EFFORTS. RATHER, WE WERE UNCLASSIFIED

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CONCERNED THAT THE "THIRD WINDOW" WOULD DETRACT FROM REGULAR IBRD AND IDA OPERATIONS, AND THAT EFFORTS TO OBTAIN CONGRESSIONAL FUNDING FOR A U.S. CONTRIBUTION WOULD LEAD TO REDUCED U.S. SUPPORT FOR IDA AT A TIME WHEN WE ARE ATTEMPTING TO SECURE CONGRESSIONAL AGREEMENT TO RESTORE IDA APPROPRIATIONS TO AUTHORIZED LEVELS. WE ALSO BELIEVE THAT THE TRUST FUND PROVIDES A MORE EFFECTIVE MEANS OF DEALING WITH THE CURRENT BALANCE OF PAYMENTS PROBLEMS OF THE POORER COUNTRIES THAN WOULD A PROJECT-ORIENTED FACILITY SUCH AS THE "THIRD WINDOW".

WITH RESPECT TO THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD), WHICH YOU ALSO MENTIONED, ITS STRUCTURE REFLECTS AN IMPLICIT ASSUMPTION THAT ROUGHLY EQUAL CONTRIBUTIONS WOULD BE FORTHCOMING FROM THE TWO

DONOR GROUPS. IN THE LIGHT OF THIS EXPECTATION, THE
LAW AUTHORIZING THE U.S. CONTRIBUTION OF \$200 MILLION
REQUIRES "EQUITABLE BURDEN-SHARING" BETWEEN THE DONOR
GROUPS, A CONDITION WHICH HAS ALSO BEEN EMPHASIZED BY
OECD COUNTRIES AS A GROUP. SINCE WE ARE SO CLOSE TO
ACHIEVING THE \$1 BILLION TARGET, I URGE YOU TO DO WHAT
YOU CAN TO ENCOURAGE EXTRA COMMITMENTS FROM OTHER OPEC
MEMBERS SO THAT IFAD'S MISSION OF PROMOTING AGRICULTURAL
DEVELOPMENT CAN SOON GET UNDERWAY.

AGAIN, I THANK YOU FOR YOUR MESSAGE AND YOUR CLEAR
STATEMENT OF YOUR VIEWS, AND I HOPE THIS MATTER CAN BE
RESOLVED SATISFACTORILY IN THE NEAR FUTURE. I LOOK
FORWARD TO SEEING YOU AT THE MANILA MEETINGS.

WITH WARM REGARDS,

----- SINCERELY YOURS,
- - - - - WILLIAM E. SIMON

3. AMBASSADOR REQUESTED TO CONVEY ABOVE MESSAGE TO
ATEEQI. TREASURY REGRETS DELAY IN RESPONDING, WHICH WAS
DUE TO BUSY TRAVEL SCHEDULES OF SEC SIMON AND ASST
SEC PARSKY.

4. IN RESPONSE TO REQUEST FOR CABLE REFERENCE FOR
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BACKGROUND ON "THIRD WINDOW" PLEASE SEE STATE AIRGRAM
A-2666, APRIL 1975. ROBINSON

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